

*give copy*  
INTERNAL REVENUE SERVICE  
District Director

DEPARTMENT OF THE TREASURY  
Midstates District Office  
1100 Commerce Street  
Dallas, Texas 75242-0000

Employer Identification Number:  
[REDACTED]

Person to Contact:  
[REDACTED]

Contact Telephone Number:  
[REDACTED]

In Response, Refer to:  
[REDACTED]

Date:

NOV 24 1999

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
Dear Sir or Madam:

We have considered your application for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code.

The information submitted discloses that you were incorporated [REDACTED]. The purposes of your organization, as stated in your Articles of Incorporation, are "to promote the health and welfare of the general public by arranging for the provision of quality, effective, and efficient health services and health-related services."

Your Bylaws state that your purposes "shall include, but not be limited to, the following: (a) to promote the delivery of quality health care in a cost-effective manner; (b) to arrange for the delivery of health care services to persons who have agreements in effect with certain payers for the delivery of such services; (c) to provide a means by which health care utilization and quality of care may be monitored and managed in an effort to improve health care through the appropriate use of physician and hospital resources; and (d) to create panels of participating providers and to offer those panels to purchasers of health care services, including health maintenance organizations, health insurers, self-insured employers, multiple employer trusts, and union trust funds for the provision of medical services to enrollees of the [REDACTED]."

Class A membership is limited to physicians in good standing of [REDACTED], and [REDACTED] of [REDACTED], and have purchased a membership interest in the organization for \$[REDACTED]. The Class B member is [REDACTED], which matches the \$[REDACTED] paid by the physician.

The standing committees of the organization are (a) [REDACTED], which is responsible for the medical management operations of the corporation, including: establishing policies and procedures relating to medical management; overseeing utilization management activities; conducting quality of care assessment and improvement studies; taking and monitoring corrective action to achieve compliance with medical management policies and procedures; providing guidance to the Medical Director of the corporation; and acting as directed by the board to hear concerns or grievances raised by Class A members and others, (b) [REDACTED], which is responsible for establishing and monitoring the annual budget, negotiating contracts and contract terms to be entered into between the corporation or the members and purchasers of health services, and other contracts into which the corporation proposes to enter,

[REDACTED]  
[REDACTED]  
(c) [REDACTED], which is responsible for reviewing and approving the credentials of physicians seeking to become Class A members or providers seeking to enter into participating provider agreements, and (d) [REDACTED], responsible for nominating Class A members to stand for election as directors representing the Class A members.

Your [REDACTED] outlines the services you will provide to your members. These services may include execution of contracts, billing and collection services for purchaser contracts, providing contracting and administrative services including claims administration, utilization management, and quality assurance.

Participating providers agree to comply with the provisions of all Purchaser Contracts, including provisions relating to the referral of patients to providers contracting with such Purchasers. Article V of the Agreement states that the provider will provide and coordinate medically necessary covered services to enrollees, and comply with the provisions of all Purchaser Contracts, including provisions relating to the referral of patients to providers contracting with such Purchasers.

A sample agreement between you and [REDACTED] one of [REDACTED] with membership of [REDACTED] in the [REDACTED] area (the total for [REDACTED] contracts is over [REDACTED] members) outlines the services to be provided by your participating physicians for the members of the managed care company. Covered Services, Attachment B, states: "Group and Group Physicians agree to provide all available Covered Services offered by Group Physicians to Enrollees as Group Physician's case load or schedule policy permits. Such services shall be provided to Enrollees under health products set forth in Attachment D."

Your agreement with [REDACTED] again provides for the provision of medical services by your members. The agreement outlines the responsibilities of both parties; essentially provision of medical services by your members, for a fee paid by [REDACTED], according to the fees set out in Fee Schedule, Exhibit III.

Your [REDACTED] contains an article telling of the partnership you have developed with [REDACTED], sponsoring [REDACTED] for which you are the "exclusive network providers." Another article encourages your members to strongly consider the advantages of [REDACTED] which has been "able to show premium savings of more than \$[REDACTED]" The final article in the newsletter states, "Hospital employees and [REDACTED] members should be directed to other [REDACTED] members whenever possible. Please refer to the attached [REDACTED] to preserve these patients' network benefits. Benefits are slashed [REDACTED] when hospital employees receive care from non-network providers. [REDACTED] members' benefits are reduced from [REDACTED] to [REDACTED] when those members go out-of-network for their health care."

Section 501(c)(6) of the Code provides for the exemption from Federal income tax for business leagues, chambers of commerce, real estate boards, boards of trade, or professional football leagues, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations states that a business league is an association of persons having some common business interest, the purpose of which is to promote the common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same



[REDACTED]

general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league.

Revenue Ruling 86-98, 1986-2 C.B. 74, holds that an organization that provides health services through written agreements with health maintenance organizations does not qualify for exemption from Federal income tax as a social welfare organization under section 501(c)(4) of the Code or as a business league under 501(c)(6).

Revenue Ruling 76-409, 1976-2 C.B. 154, determined that a nonprofit organization of individuals in the business of furnishing services, which assigns exclusive franchise areas to its members and publishes and distributes to their potential customers, a directory containing members' names and addresses, is performing particular services for its members and does not qualify for exemption under section 501(c)(6) of the Code.

Revenue Ruling 74-553, 1974-2 C.B. 168, states that a nonprofit organization formed by members of a State medical association to operate peer review boards for the primary purpose of establishing and maintaining standards for quality, quantity, and reasonableness of costs of medical services qualified for exemption from tax under section 501(c)(6) of the Code. Membership in the organization was open to any member of the medical profession.

Revenue Ruling 73-567, 1973-2 C.B. 178, held that a medical specialty board that devises and administers written examinations to physicians in a particular medical specialty and issues certificates to successful candidates is exempt from tax as a business league under section 501(c)(6) of the Code. The examinations were open to all successful candidates in the medical specialty.

Your activities are substantially like those of the organization described in Revenue Ruling 86-98. Your main thrust is contracting with managed care providers for the benefit of your members. Your membership is not open to all physicians in the area, but is limited to physicians in good standing of the active, provisional and courtesy medical staff of [REDACTED], who have purchased a membership interest in the organization.

You claim to be like the organization in Revenue Ruling 74-553; however, "credentialing" is limited to ensuring that your members meet certain standards, and does not promote a line of business because it is not available to all physicians in the area. Certifying the credentials of your member physicians allows you to assure managed care providers that the services provided to their members will be of an acceptable standard. The organization in the ruling operated a system of peer review boards throughout the state. Cases were submitted to them from many interested sources to resolve questions such as the appropriateness of a particular medical procedure, the proper utilization of medical facilities, and other questions relating to the costs and quality of medical care. Your activities do not resemble those of the organization in the ruling.

Like the organization in Revenue Ruling 76-409, you publish and distribute a list of your members (the "network of providers"), their specialties and locations, which is provided to the companies with which you contract. Participants of

[REDACTED]  
[REDACTED]

managed healthcare plans must use the services of member physicians to maximize their benefits. Member physicians agree to refer patients to other physicians in the network.

Based on the information you have submitted, we have concluded that you do not meet the requirements for exemption as a business league described in section 501(c)(6) of the Code. You are therefore required to file Federal income tax returns on Form 1120.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 as soon as possible. A return envelope is provided for your convenience.

If you do not agree with these conclusions, you may within 30-days from the date of this letter, file in duplicate a brief of the facts, laws, and argument that clearly sets forth your position. If you desire an oral discussion of the issues, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30-days of the date of this letter, this proposed determination will become final.

If you have further questions, please contact the persons whose name and telephone number are shown at the beginning of this letter.

Sincerely,

*Ladd Ellis, Jr.*  
Ladd Ellis, Jr.  
District Director

Copy to:

[REDACTED]  
[REDACTED]  
[REDACTED]

Enclosures:

Publication 892  
Form 6018  
Return Envelope



Internal Revenue Service  
Appeals Office  
55 North Robinson  
Suite 939  
Oklahoma City, OK 77024

Date: JUN 25 2001

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

Department of The Treasury  
Area 7, Tax Exempt / Government  
Entities

Person to Contact:

Employee ID Number: [REDACTED]

Tel: [REDACTED]

Fax: [REDACTED]

Refer Reply to:

[REDACTED]

In Re:

EO Determination

Tax Period(s) Ended:

N/A

Dear Sir:

We have considered your appeal of the adverse action proposed by the Director of Exempt Organizations. Your exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code is denied.

The denial is based primarily on the fact that you are performing particular services for physicians and managed care providers who choose to be contracted by your organization. Although the general public may benefit from this relationship, it is not critical to the performance of the services you provide for your members.

You are required to file Federal income tax returns on Form 1120. You should file these returns with the Internal Revenue Service Center, Ogden, Utah 84201-0012.

You may direct questions about the decision to the appeals officer whose name and telephone number are shown above.

Sincerely,

*Tim J. Messinger*

Ralph G. Messenger  
Appeals Team Manager

cc: [REDACTED]